

OPENING STATEMENT

of

SENATOR CHUCK GRASSLEY

Chairman, Senate Special Committee on Aging

SHORTCHANGED: Pension Miscalculations

June 16, 1997

This hearing will come to order. As Chairman of the Special Committee on Aging it is with great pleasure that I welcome each of our witnesses, members of the public and my distinguished colleagues to this very important hearing.

Today we are going to hear from people whose pensions were miscalculated, the reasons for those miscalculations, and what to do if you think that there is an error in your pension. This hearing is going to highlight who is at risk -- not who is at fault when it comes to pension miscalculations. This hearing will also address whether this problem is rare or are we seeing the awakening of the proverbial sleeping giant. But, if I were to sum up what is the most important message of this hearing -- well, it is about what you and I can do to be more accountable to ourselves, our families and to our futures. This hearing cries out to current and past employees, to young and old alike--and says-- when it comes to your pension -- be pro-active, take charge of your future --in other words--TRUST BUT VERIFY.

It is well-established that pensions play a critical role in providing a secure future during one's retirement years. When thinking about pensions -- it is helpful to think of a three legged stool. The first leg represents social security income, the second leg represents an individual's personal savings and the third leg represents an employee's pension.

Pensions operate in a complex universe that spans across several agencies and involves countless statutes, regulations, instructions, advisory opinions and case law. Over the past 20 years or so, Congress enacted 16 major laws regulating pension plans. Let me elaborate.

Here is a chart with sections -- divided between the three agencies with primary jurisdiction over pensions -- the Internal Revenue Service, the Pension Benefit Guaranty Corporation, and the Department of Labor. What is astounding here -- is that this chart illustrates just the reporting and disclosure calendar for benefit plans -- not the multitude of other laws that effect pensions in one way or another.

Since beginning work on this oversight hearing -- I was nagged by the question -- just how big is the pension miscalculation issue? Are we dealing with a few, infrequent cases that have reached prominence or are we nudging a sleeping giant? Well, I hate to say it -- but, it looks like the sleeping giant is starting to awaken. Let me tell you why. Recently we asked the PBGC to look into this matter. We asked the PBGC for an estimate of the error rates in the audit samples they conducted for terminated pension plans. The PBGC said that the preliminary results from their latest audit cycle showed that approximately 13.7% of the almost 2,800 people they looked at, were underpaid. The majority of these people were receiving lump sum distribution payments. That is a shocking and alarming number and I

can only hope that it is not representative.

The PBGC audit results also reveal that there is a disturbing increase in the number of people underpaid.

This next chart tracks the increase in the number of participants underpaid from 1986 to 1995. The number of people who didn't get what they earned has increased from 2.8% to 8.2%. How much are they being shortchanged? Our final chart shows that the dollar amounts can be significant. In fact, nearly 1 in 3 people underpaid in the latest cycle were underpaid at least One Thousand Dollars. That kind of money buys a lot of food and pays a lot of bills for retirees and workers of any age -- everyone is at risk.

Anyway, we have three panels today. On the first panel are two victims--two people who were the subject of pension miscalculations. The second panel is made up of three witnesses -- the people whose guidance that one may seek if you think that there is a problem with your pension calculation. The third panel has three witnesses as well; two pension advocates who will discuss, among other things, the Administration on Aging's pension counseling demonstration project and the findings of a recent pension summit. In this third panel we will also hear from the president of a company engaged in the business of administering pension plans.

Closing Remarks

Before concluding this hearing, I would like to again thank our witnesses. Without your insightful and personal testimony we would not be as informed as we now are regarding pension miscalculation and what every consumer should do to avoid the risk of being 'SHORTCHANGED.' Now let me ask--Can we ever make this pension arena 'error-free'--**absolutely not**--can we improve the situation--**absolutely**.

First, this week, I intend to introduce legislation to update the Older Americans Act pension counseling demonstration projects. This will encourage more regional coverage and propose the creation of an 800 number.

Second, I hope to insure that employers provide to employees, if they ask-- documents showing how their benefits were calculated.

Third, I am giving consideration to encouraging plans to resolve disputes through an alternative resolution process.

Fourth, I will review the safeguards that are in place to help participants track plans that have been closed or frozen because of a corporate merger or acquisition.

Finally, and I cannot emphasize this enough, I am talking to every and woman- young and old--take charge of your future, be pro-active, keep pension documents, ask questions and make it hard for you to be 'SHORTCHANGED.'